

ISSUE DATE: August 20, 1996

DOCKET NO. P-407, et al./CP-93-1027

ORDER APPROVING COST STUDY AND REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs  
Marshall Johnson  
Dee Knaak  
Don Storm

Chair  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Petition for Extended Area  
Service from the Watertown Exchange of  
GTE Telephone Operations to the  
Metropolitan Calling Area

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**PROCEDURAL HISTORY**

On November 8, 1995, the Commission issued its ORDER ESTABLISHING RATES FOR POLLING, APPROVING A LOWER COST ALTERNATIVE, AND REQUIRING REPORT in this docket. In that Order, the Commission ordered GTE Telephone Operations (GTE or the Company) and the Department of Public Service (the Department) to attempt to resolve two issues: 1) the appropriate level of administrative expenses in GTE's EAS rates; and 2) the effect of GTE's access charge settlement on lost access revenue for EAS routes. Resolution of these two issues was necessary for the parties to determine GTE's total revenue requirement and for the Commission to approve the appropriate allocation of the revenue requirement to the Metropolitan Calling Area (MCA).

Although cost study issues remained outstanding, the Commission was able to set the Watertown EAS additives due to the following provisions of Minn. Stat. § 237.161, subd. 4:

Rates within the existing metropolitan local calling area may not be raised as a result of the addition of a local exchange under this subdivision until rates in the added exchange are at least equal to the highest rates in an adjacent exchange within the metropolitan local calling area, provided that the rates in the added exchange may not exceed the amount necessary to recover 100 percent of the costs and ensure that the rates are income neutral for the telephone company serving the added exchange.

In this case, Mayer is the adjacent MCA exchange with the highest total monthly charges for local service. Because allocating 75 percent of the EAS costs to Watertown (the usual allocation for an exchange petitioning to the MCA, without considering the above statutory exception) results in rates for Watertown that are lower than Mayer's, the statutory provision requires that Watertown's EAS rates must be raised to equal Mayer's. The Commission therefore set

Watertown's EAS additive to equal Mayer's total local rates. Using these rates, the Commission polled Watertown subscribers on the proposed EAS route to the MCA.

On January 29, 1996, the Commission issued its ORDER CERTIFYING POLLING RESULTS AND DIRECTING INSTALLATION OF EAS. In that Order the Commission found that a majority of the responding Watertown subscribers favored the proposed EAS route. The Order did not address the two cost issues the Department and the Company were discussing.

On April 19, 1996, GTE filed a revised cost study reflecting adjustments for lower access charges stemming from GTE's access charge settlement<sup>1</sup>.

On August 6, 1996, GTE's revised cost study came before the Commission for consideration.

## **FINDINGS AND CONCLUSIONS**

In its November 8, 1995 Order, the Commission required GTE and the Department to work toward resolution of the following two cost issues: 1) the effect of GTE's access charge settlement on lost access revenue for EAS routes; and 2) the appropriate level of administrative expenses in GTE's Watertown EAS rates.

### **I. ACCESS CHARGES**

GTE's revised cost study correctly reflects the Company's access charge settlement reached on December 10, 1994 and its effect on the EAS revenue requirement for Watertown.

The Commission agrees with the Department and the Company that the access charge element of GTE's Watertown EAS revenue requirement has been satisfactorily resolved.

### **II. ADMINISTRATIVE EXPENSES**

#### **A. Positions of the Parties**

In its EAS cost studies, GTE derives its administrative expense figure by applying various cost factors (taxes, maintenance, and administration) to the capital investment required for the proposed EAS route. In this case, GTE applied a general and administrative (G&A) cost factor of 11.823% to the capital investment figure, with a result that impacted rates by approximately \$2.40 per line. GTE argued that the Commission and the Department have found this calculation method acceptable in previous dockets involving GTE and other EAS providers.

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<sup>1</sup> In the Matter of the Commission Solicitation of Comments Regarding Access Charges, Docket No. P-999/CI-93-90, ORDER ADOPTING SETTLEMENT AGREEMENT REGARDING LOCAL EXCHANGE COMPANY ACCESS CHARGES FOR GTE, UNITED, AND VISTA, WITH ONE MODIFICATION (December 10, 1994).

GTE explained that the G&A cost is high compared to other dockets because the Watertown switch required an unusually expensive upgrade to accommodate EAS.

The Department did not disagree with the Company's method of calculating its G&A cost, but found the resulting rate impact of \$2.40 unacceptable. The Department noted that GTE has calculated G&A costs of \$0.52 in the Lindstrom exchange and \$0.48 in the Delano exchange. If the Company calculated these cost levels in other exchanges, the Department argued, the costs proposed for Watertown must be excessive. The Department recommended that the Commission cap GTE's Watertown G&A costs at \$0.50.

## **B. Commission Action**

The Department does not argue with the Company's method of calculating G&A costs. The Department does not claim that the expensive switch upgrade was not a necessary part of implementing EAS in the Watertown exchange. The Department simply argues that the G&A cost, which is derived by applying the calculation method to the necessary investment cost, was "too high." While the Commission appreciates the Department's close scrutiny of EAS costs, the Commission finds the Department's line of reasoning unpersuasive in this case. In comparing the G&A costs in Watertown to those of other exchanges, the Department has failed to take into account the varying levels of investment necessary to implement EAS in various exchanges. In the Watertown exchange, an unusually expensive switch upgrade resulted in an unusually high G&A cost. The Commission finds that GTE has properly accounted for its proposed G&A factor in its EAS costs. The Commission will accept the Company's proposed G&A costs, as well as the rest of its April 19, 1996 revised cost study.

Acceptance of the Company's proposed costs results in the following cost allocation: Watertown subscribers will be allocated 78.11% of the total EAS revenue requirement; telephone subscribers in the MCA will be allocated 21.89% of the revenue requirement.

## **ORDER**

1. The Commission approves GTE's April 19, 1996 cost study.
2. GTE shall serve its April 19, 1996 cost study on all telephone companies serving the MCA.
3. Within 15 days of the date of this Order, all telephone companies serving the MCA shall file revised, proposed rate additives for MCA subscribers.

4. The Department shall submit comments on the proposed rate additives within 15 days of their filing.
5. Within 30 days of the date of this Order, the telephone companies serving the MCA shall file proposed customer notices.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

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